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UNCLAS SECTION 01 OF 02 CHIANG MAI 000217

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SUBJECT: PROSPECTS OF INCREASED CHINA TRADE BRING BOTH ANTICIPATION
AND FEAR

REF: A. A) CHIANG MAI 193 (GOLDEN TRIANGLE TO BECOME GOLDEN GATEWAY)

[1](#)B. B) 05 CHIANG MAI 252 (BUILD IT AND THEY WILL COME: THAILAND PLANS NEW MEKONG PORT TO BOOST CHINA TRADE)

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[1](#)1. Summary. The scheduled late-2007 completion of the final section of a highway between Kunming and Bangkok will open a new, faster route for trade with southern China. Two other routes, one via the Mekong River and another by road through Burma, are less attractive alternatives. Plans for a second port on the Mekong in Chiang Saen are likely to be shelved while a future industrial estate along the Mekong remains in question.
End summary

[1](#)2. Businessmen in Thailand's northern most province of Chiang Rai eye with mixed eagerness and concern the inevitability of greater trade with southern China, both via road and via the Mekong River. According to Chiang Rai Chamber of Commerce President Pattana Sitthisombat, when the last 160-kilometer section of the Kunming-Bangkok highway is completed from Luang Namtha to Huayxay in late 2007, the road will offer an 18-hour drive from the Yunnan capital to Bangkok. Others believe the approximately 1800-kilometer trip is more likely to take 24 hours.

--- Size matters ---

[1](#)3. Although the Chiang Rai private sector has promoted greater economic linkages with southern China for years (ref a), small and medium business people are nervous at competing with such an economic giant. Former Chiang Rai Chamber of Commerce head Anan Laothamatas expressed concern that the completed Kunming-Bangkok Highway - with talk of 3,000 Chinese trucks rolling into Thailand daily -- would bring a flood of Chinese goods and services that could dominate the Thai economy. A few development experts similarly warned of likely social, cultural, and health disruptions along the trade route. Nevertheless, faced with Yunnan's population of 43 million and the 65,000 members claimed by its Chamber of Commerce, northern business leaders see no option other than riding the wave as skillfully as possible.

[1](#)4. The road under construction through Laos is generally considered the most reliable route for future trade between Thailand and southwestern China. An alternate land route through northern Burma passes through insurgency areas while the oft-touted Mekong river route is subject to changing water levels controlled by the Chinese.

[1](#)5. Completion of the much-anticipated road, however, has been hampered by construction delays as well as indecision over the bridge that will cross the Mekong between Ban Huayxay in Laos and Chiang Khong on the Thai side. After negotiations with China, representatives from Thailand, Laos and the Asian Development Bank recently agreed to reduce the size of the bridge to fit a budget of USD 33.11 million, to be shared by Thailand and China. Even with the funding hurdle overcome, however, the finished bridge may be another 3-4 years ahead, with design, construction start and a target completion date still to be decided.

--- Mekong port activity grows ---

[1](#)6. Although expected to be eclipsed once the road is completed, transport along the Mekong River continues to increase, especially for heavy products such as fuel and rubber. The customs officer in Chiang Saen recorded Thai-Chinese trade import and export goods in the 2006 fiscal year at 263,000 metric tons. These numbers represent only imports and exports through the official port operated by the Ports Authority of Thailand; additional goods enter through 10 private customs bonded warehouses and ports lining the Mekong riverbank. According to the Water Transportation office in Chiang Rai, the number of Chinese boats on the Mekong River increased by 16

percent to 1,600 boats in 2005 while the number of Lao boats increased from 340 to 520. (No Thai boats operate on the river -- explanations variously include a lack of skilled Thai river pilots and the inside information Chinese pilots are said to receive about water release from the dams upstream.)

17. Tourism through the port is also growing, with 5-6 Chinese tourist boats operating 2-3 trips weekly on the Jing Hong-Chiang Saen route. The one-way trip on a fast tourist boat takes about 10 hours upriver and costs baht 20,000 (USD 570) per passenger, according to the Chiang Saen port manager. In the first nine months of 2006, Chiang Saen Immigration recorded 7,358 tourists departing and arriving at the port. Over half of these passengers, 3,696, were inbound Chinese, with another 1362 outbound; Thai tourists totaled 500 inbound and another 500 outbound, with other nationals showing 800 arrivals and 500 departures.

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18. Despite these steady increases in port activities, plans to build a second port (ref b) at Chiang Saen dimmed with the demise of the Thaksin Shinawatra government. Although the government compensated villagers 53 million baht to move off the 160-acre site earlier this year, the interim Minister of Transport is now studying whether to go ahead with additional funding. When and if the new port is built, the current port would serve tourist boats exclusively.

--- Doubts over industrial estate in Chiang Kong ---

19. Additional Thaksin-era plans to promote trade with China included an industrial estate and Border Economic Zone in Chiang Khong. Ratified by the cabinet in February (ref a), the 6,400 acre estate would serve logistics, agricultural processing plants, high value garments, jewelry, and electronics. This project has lost some of its luster since the Sept. 19 coup; both Chamber of Commerce head Pattana and the Chiang Khong district officer questioned whether Chinese investors would be interested.

110. Viable or not, the plan for an industrial estate in Chiang Rai has competition from two new Chinese investment schemes on the Lao side of the river, one across from Chiang Khong and another opposite the Chiang Saen port. Locating manufacturing and farming projects in Laos would allow Chinese investors to bypass Thai regulations while still providing access to Southeast Asian markets.

111. Comment: Northern business people remain eager to promote trade with China and support all proposals for roads, river transport, ports, and industrial estate development that will further strengthen economic relations and the border economy. While somewhat fearful at the prospect of being overwhelmed by trade and investment from China, they are even more nervous at the idea that China might seek other trade routes through Vietnam and Burma. Although tighter government budgets after the coup may delay or cancel some of the plans, the Kunming-Bangkok road link will eventually be completed, with inevitable big changes to this area of the country.

MOORE